

PRO RATA ASSESSMENTS FOR THE
COSTS OF CENTRALIZED
ADMINISTRATIVE SERVICES:
DESCRIPTION OF METHODOLOGY
AND RECOMMENDATIONS

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EXECUTIVE SUMMARY

Pro rata is the process administered by the Department of Finance (Finance) through which the General Fund is reimbursed by special funds for the cost of centralized administrative services provided to State departments. Because Finance made changes to the methodology beginning in 2002-03, the Legislature adopted Supplemental Report Language in the 2003 Budget Act requesting Finance to describe the methodology used for 2004-05 and to recommend improvements.

This report describes the process by which Finance allocates the costs of centralized administrative services to the various State departments and then bills specified funds supporting those departments for the costs of the centralized services. The study finds that there are no absolute rules for the pro rata system, but that the system is driven by two guiding principles: (1) fair, equitable and consistent billings to departments and funds, and (2) maximum recovery of General Fund costs.

In light of these principles, the study finds that changes should be considered in the following three areas: (1) the method for allocating the costs for the Legislature to State departments should be meaningfully related to the activities of the Legislature; (2) Finance should clarify and strengthen its criteria for determining which funds should be billed and should review all funds for consistent treatment; and (3) the decision to assess pro rata costs to expenditures other than state operations should be revisited.

I. INTRODUCTION

Pro rata is the process by which the General Fund is reimbursed by special funds for the cost of centralized administrative services that are provided in support of those funds. Government Code Section 11271 assigns responsibility for the pro rata process to the Department of Finance (Finance), and Government Code Section 11272 authorizes Finance generally to "consider the factors of cost distribution and cost estimation as it deems necessary." The basic pro rata process and methodology has been in place for decades. However, Finance periodically makes refinements to the methodology. Beginning in 2002-03, Finance made changes to the methodology in order to more broadly distribute costs to special funds.

For the 2003 Budget Act, the Legislature adopted the following Supplemental Report language requesting that Finance report on the methodology used for 2004-05:

"It is the intent of the Legislature that the recovery of statewide general administrative costs from special funds be reflective of the level of services provided state agencies. The Department of Finance, therefore, shall provide a report by January 10, 2004, to the Joint Legislative Budget Committee and the chair of the budget committee of each house of the Legislature on the current pro rata methodology used in developing the 2004-05 budget. This report shall include, but not be limited to, a description of the current pro rata methodology, how effectively the methodology reflects the level of services provided to assessed funds, a list of assessed bond and specially designated bond funds and how these funds reflect a consistently applied methodology. The report shall also include a discussion of how the pro rata methodology could be improved."

II. OVERVIEW OF METHODOLOGY

General Definition and Description

Through the pro rata process, the General Fund cost of providing centralized administrative services to the various State departments is reimbursed by special funds that are supported by and benefit from those services. The centralized administrative services are specific functions provided by specified State departments (e.g., payroll processing provided by the State Controller).¹ The General Fund cost of the functions (including overhead) is identified, and allocated back to the various State departments, based on a related workload measure. For example, in the case of the State Controller the related workload measure is the number of payroll warrants issued per department. Once the costs are allocated back to each department, the total cost is spread over the various funds that support that department. For each fund that receives an assessment, the State Controller transfers the monies to the General Fund as a reimbursement.

Two Components of the Allocation

The allocation to each department for the budget year is comprised of two basic components: the new "estimate" for the budget year, plus a "roll-forward" amount that reflects undercharges or overcharges from the past fiscal year, based on the difference between the estimated versus the actual expenditures for the past year. For fiscal year 2004-05, the roll-forward component reflects the past year actual experience from fiscal year 2002-03. Some functions have no costs allocated in the budget year estimate, but have a roll-forward component that reflects 2002-03. For 2004-05, the new estimate is approximately \$1.1 billion and the roll-forward amount is -\$144 million. The total combined allocation for 2004-05 is \$967 million.

Billable and Nonbillable Funds

There are two basic categories of funds in the pro rata process: billable and nonbillable. Billable funds are those funds that pay pro rata charges. These generally include funds for which the source is licences, fees, user charges, etc. Nonbillable funds do not pay pro rata charges, for a variety of reasons. The General Fund does not pay pro rata, because there is no need for the General Fund to reimburse the General Fund. The Federal Trust Fund is prohibited from paying pro rata under federal requirements. A few funds have been exempted by legislation (e.g., the Lottery Education Fund). Some funds that do not pay pro rata are not really State funds but are included in the budget for display purposes only (e.g., county revenues used to finance schools).

The nonbillable funds generally are excluded altogether from the pro rata calculations. However, the General Fund and federal funds are included in the calculations, but do not pay the assessed amount. Since many departments receive large amounts of General Fund and federal funds, a significant fraction of the pro rata assessment is nonbillable. For 2004-05, only about \$321 million of the \$967 million total is deemed billable.

¹ Government Code Section 11270 lists the departments/entities providing centralized administrative services.

Collectible Amounts

The total amount of pro rata that is collected and remitted to the General Fund is **greater** than the total billable amount. This difference occurs because some individual funds within a department were overcharged in the past year by an amount that is greater than the new amount estimated for the budget year, so the total assessment for that fund is a negative amount. The negative amounts are not collectible. (Note: prepayments and deferrals can also result in negative amounts.) The table below is an example of a department with a total billable amount of \$100,000 but a collectible amount of \$150,000.

Fund	Roll-Forward	New Estimate	Billable	Collectible
<i>Fund A</i>	<i>-\$150,000</i>	<i>\$100,000</i>	<i>-\$50,000</i>	-
<i>Fund B</i>	<i>50,000</i>	<i>100,000</i>	<i>150,000</i>	<i>\$150,000</i>
Total	-\$100,000	\$200,000	\$100,000	\$150,000

Finance certifies the collectible amounts to the State Controller at the start of each fiscal year. For 2004-05, the amount that will be collected is estimated at \$350 million.

Summary of 2004-05 Pro Rata Assessments

Dollars in Millions	
New Estimate	\$1,111
Roll-Forward	-144
Total Allocated	\$967
<i>Billable</i>	321
<i>Nonbillable</i>	646
Estimated Collections	\$350

III. DISCUSSION OF METHODOLOGY

A. Allocation of Functions

Description of Functions

For 2004-05, the following centralized services are included in the pro rata process. It should be noted that three of the agency secretaries (Business, Transportation & Housing, Resources, and Labor & Workforce Development) have no General Fund costs estimated for 2004-05.

Finance <ul style="list-style-type: none"> • Audits and Evaluation • Budgets • CALSTARS • Technology Oversight & Security Unit 	State Personnel Board²
State Controller <ul style="list-style-type: none"> • Accounting • Claims Audits • Payroll • General Disbursements • Field Audits • Retirement Warrants • Personnel/Payroll Services Division (Payroll) & Information Systems Division (Systems) 	Department of Personnel Administration²
State Treasurer <ul style="list-style-type: none"> • Investments • Banking • Cash Management and Trust Services 	Victim Compensation and Government Claims Board
	Office of Administrative Law
	State Library
	Health Benefits for Retired Annuitants
	Agency Secretaries <ul style="list-style-type: none"> • Health & Human Services • Youth & Adult Correctional • State & Consumer Services • Business, Transportation & Housing • Resources • Labor & Workforce Development
	Bureau of State Audits
	Legislature

In addition, the following additional allocations appear only in the roll-forward component, reflecting activity related to the 2002-03 fiscal year:

- Department of Information Technology – The department was abolished in June 2002; pro rata charges assessed in 2002-03 are being credited in 2004-05.
- Department of General Services: California Home Page, State E-Mail and Telecommunications Network – These functions are no longer included in the pro rata process, but are billed by the Teale Data Center. The undercharges and overcharges that occurred in 2002-03 are reflected in the 2004-05 total allocation.
- Technical Adjustments – These adjustments reflect manual changes in the past year methodology that have since been fully incorporated into the methodology for 2004-05.

² The costs and workload for this function have been divided into the following two parts, which are calculated separately: (1) Judicial Council and (2) all other departments.

Costs of Central Administrative Services

For 2004-05, the table below displays the amounts allocated for central administrative services in the new estimate, in order of magnitude. For departments with multiple functions, only the total amount for the department is shown. (Detail by function appears in Appendix A.)

Central Administrative Services	2004-05 Estimate	Percent
Health Benefits for Retired Annuitants	\$853,415,269	76.8%
Legislature	147,113,700	13.2%
Controller	41,534,839	3.7%
Finance	30,845,507	2.8%
Bureau of State Audits	11,756,000	1.1%
Treasurer	6,424,817	0.6%
Department of Personnel Administration	5,802,859	0.5%
Agency Secretaries	5,167,000	0.5%
State Personnel Board	3,900,000	0.4%
State Library	2,723,790	0.2%
Office of Administrative Law	1,864,000	0.2%
Victim Compensation & Gov't. Claims Board	791,000	0.1%
Total	\$1,111,338,781	100.0%

The most notable feature of this table is the strong dominance of health benefits for annuitants, which is 77 percent of the total allocation. When the pro rata process was evaluated by the Bureau of State Audits in 1986, the cost of health benefits for annuitants was 39 percent of the total allocated for 1984-85.³ The share of pro rata costs attributable to health benefits for retired annuitants will most likely increase in the future, as the number of retirees and the costs of health care grow, while the other General Fund functions billed back through the pro rata process remain constrained due to the condition of the General Fund.

³ Auditor General of California (former name for the Bureau of State Audits), *Some Pro-Rata Costs Could Be More Equitably Allocated*, February 1986, Appendix B, page 39.

Workload and Allocation Methodology

The table below shows the functions by type of common workload unit and allocation methodology. (A detailed listing of functions, workload units and dollars allocated appears in Appendix A.)

Department and Function	Type of Workload Unit	Allocation Methodology
<ul style="list-style-type: none"> • Controller—Payroll & Systems • State Personnel Board • Dept. of Personnel Administration 	Positions	Costs are allocated based on the number of positions per department.
<ul style="list-style-type: none"> • Controller—Accounting • Controller—Claims Audits • Controller—Payroll • Controller—General Disbursements • Controller-Retirement Warrants • Treasurer—Banking • Victims Compensation and Government Claims Board 	Records and Warrants	Costs are allocated based on the number of records and warrants per department.
<ul style="list-style-type: none"> • Finance—Audits & Evaluation • Finance—Budgets • Finance—Technology Oversight & Security Unit • Controller—Field Audits • Office of Administrative Law • Bureau of State Audits 	Hours	(1) Direct hours are billed to the identified department. (2) Costs of indirect hours are distributed to all departments based on their share of total State expenditures.
<ul style="list-style-type: none"> • Treasurer—Cash Management & Trust Services • State Library 	Expenditures	Costs are distributed to each department based on its share of total State expenditures.
<ul style="list-style-type: none"> • Finance—CALSTARS 	Expenditures	Costs are distributed to each CALSTARS department based on its share of total CALSTARS expenditures.
<ul style="list-style-type: none"> • Agency Secretaries 	Expenditures	Costs of the agency are distributed to each department within that agency based on its share of the total expenditures for that agency.
<ul style="list-style-type: none"> • Treasurer—Investments 	Interest Earned	Costs are allocated to each identified department based on the amount of interest earned by the funds supporting that department.
<ul style="list-style-type: none"> • Health Benefits for Retired Annuitants 	Expenditures	Expenditures are distributed to all departments based on each department's share of the total State expenditures for health benefits for active employees.
<ul style="list-style-type: none"> • Legislature 	Expenditures	Half of the cost of the Legislature is distributed to all departments based on each department's share of the combined total of all other pro rata costs.

For pro rata functions other than the Legislature, the allocation method appears reasonably related to the activities. It should be noted that the other allocation methods comprise a small share (only 10 percent, or \$110 million) of the total pro rata distribution. This 10 percent share includes the following three categories: (a) 6 percent (\$60 million) for functions (including parts of functions⁴) allocated on the basis of specific direct workload (i.e., hours, records/warrants); (b) 2 percent (\$25 million) for functions (or part of functions⁵) allocated on the basis of total State expenditures or expenditures for selected departments; and (c) 2 percent (\$25 million) for functions allocated based on positions. (See supporting detail in Appendix A.)

Allocation of Costs for the Legislature

The predominant amount allocated for health benefits for annuitants affects the allocation of costs for the Legislature, because the costs for the Legislature are distributed like the combined total of other pro rata costs. Since health benefits for annuitants comprise 77 percent of the total costs and other services comprise only 10 percent of the total costs, the distribution of the combined total is heavily weighted by the distribution of health benefits for annuitants. As noted above, health benefits for annuitants are distributed based on the amounts that departments pay for health benefits for active employees. Thus, the costs of the Legislature are distributed largely on the basis of how much departments pay for health benefits for their employees, which does not appear to have a logical relationship to the activities of the Legislature. This incongruity will likely increase in the future, because the share of pro rata attributable to health benefits for retired annuitants will likely increase.

The original rationale for distributing the costs of the Legislature based on the distribution of the other pro rata costs was that there was no logical workload measure for the Legislature. Using the average of the other costs seemed reasonable, and it was in the past. Today, a more logical method may be to allocate costs using the same distribution as for the Finance-Budgets function. Although the activities of the Legislature are unique, there is some similarity to the Finance-Budgets function in that Finance budget staff work on both legislation and the budget, and departments that generate heavy workload for Finance also require considerable attention from the Legislature. About 85 percent of the costs for the Finance budget function is distributed on the basis of hours identified to specific departments, and about 15 percent of the costs are indirect, which are distributed on the basis of State expenditures and are logically related to activities of the Legislature that benefit the State as a whole. Other workload bases used in the pro rata process (i.e., percent of State expenditures or number of positions) do not bear a logical relationship to the activities of the Legislature. The percent of State expenditures might ordinarily bear a logical relationship, but many funds and expenditures are excluded from the pro rata calculations (such as Proposition 98); consequently, the distribution does not reasonably relate to the level of legislative activity for certain departments. (For example, in the pro rata system, 27 percent of total State expenditures are attributable to the Department of Health Services, versus 6 percent for the Department of Education).

⁴ Includes the portion of the functions based on hours for which the direct hours are billed to identified departments.

⁵ Includes the portion of the functions based on hours for which the costs of the indirect hours are distributed based on total State expenditures.

The following table compares how selected pro rata costs are distributed to several large departments:

	Selected Pro Rata Functions					
	Finance: Budgets	Controller: Payroll & Systems	State Library	Health Benefits For Retired Annuitants	Legislature	All Functions
Basis of Allocation	Hours & State Expenditures	Positions	State Expenditures	Employee Health Benefit Costs	Percentage of Other Pro Rata	--
Dollars Allocated (in \$1,000s)	\$22,343	\$15,228	\$2,724	\$853,415	\$147,114	\$1,111,339
<i>Percent Distribution:</i>						
ALL DEPARTMENTS	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Corrections	6%	17%	4%	23%	22%	22%
Calif. State University	1%	20%	2%	15%	14%	14%
Transportation	5%	8%	6%	9%	9%	9%
Employment Devel.	3%	4%	12%	3%	4%	4%
Health Services	10%	2%	27%	2%	3%	3%
Social Services	5%	2%	12%	2%	2%	2%
Education	14%	1%	6%	1%	1%	1%
Other Departments	55%	46%	32%	45%	46%	46%

B. Distribution to Funds

As described in the overview, once the pro rata functions have been distributed to each department, the total dollar amount of the assessment is spread proportionately to the funds that support that department. Funds are identified for assessment in the budget year if there are expenditures in the current year.⁶

Prior to 2002-03, the pro rata functions were assessed only against funds with expenditures for state operations. Beginning in 2002-03, the system was expanded to include funds with local assistance and "unclassified" appropriations (e.g., contributions to retirement systems, purchases of electrical power). For 2003-04, the system was expanded again to include funds with capital outlay appropriations. The purpose of the expansion was to spread the General Fund costs of centralized services more broadly and equitably to State government functions and special funds, and in the process increase the amount of pro rata collections. As more characters of appropriation were added, more funds became involved, and questions were raised about the appropriateness of some of the assessments. In response, Finance staff clarified and amended the inclusion of some of the funds.

For this report, various issues relating to funds were explored. Given the large number of funds (over 1,000) and the fact that many have complicated statutory and legal histories and other complex characteristics, it was not possible to do a systematic review of all funds. A sample of

⁶ Funds that are newly created for the budget year are not automatically included. However, the fund may be included if requested by the department or the Finance budget analyst.

departments and funds were examined, and a number of issues arose. This report addresses issues in the following two areas: (a) designation of funds as billable or nonbillable; and (b) expansion beyond funds with state operations appropriations to include funds with other characters of appropriation (i.e., local assistance, capital outlay and unclassified).

Caveats. Throughout the discussion of funds, it is important to remember that the inclusion or exclusion of types of funds and characters does not affect the amount of pro rata assessed to each department. What is affected is the mix of billable and nonbillable funds, how much each fund (and each department) actually pays for centralized services, and the amount of funds ultimately collected and reimbursed to the General Fund. These figures are impossible to project without running a simulation of the entire system. This report does not address the consequences of these issues for the amount collected, but focuses on the logic, consistency and reasonableness of the methodology.

Designation of Nonbillable Funds

The Finance database includes 1,011 active funds, of which 179 funds are nonbillable and generally excluded from the pro rata system, and 832 funds are included in the system. The State's Uniform Codes Manual has six basic categories of funds, as shown in the table below.

Fund Category	Number in Category ⁷	Billable for Pro Rata	Nonbillable for Pro Rata
General Fund	1	-	1
Federal Trust and Agency Funds	34	20	14
Special Funds (supported by user fees, license fees, etc.)	516	493	23
Bond Funds	128	27	101
Non-Governmental Cost Funds (includes nonfederal trust and agency funds, enterprise funds, revolving funds, revenue bond funds, etc.)	331	292	39
Reimbursements	1	-	1
Total	1,011	832	179

Finance has both formal (i.e., written) and informal criteria for designating funds as billable or nonbillable. The formal criteria indicate that billable funds are: (1) supported by licenses, fees, user charges, interest earnings, sales, contributions, or General Fund appropriations; (2) funds whose primary expenditure is for local assistance or capital outlay; and (3) bond funds for which the repayment source is fees (e.g., revenue bonds). Nonbillable funds are: (1) the General Fund, (2) funds that include or administer federal contracts, grants and entitlements, and (3) bond funds for which the repayment source is fees (e.g., revenue bonds). These formal criteria are not sufficient to address all situations, particularly for bond funds, for which the criteria for billable and nonbillable are the same. The informal criteria for designating funds nonbillable address situations that do not meet the formal criteria or for which further clarification is necessary.

The General Fund is nonbillable because there is no need for the General Fund to reimburse itself. Reimbursements are not billable because they are not a real fund. Federal Funds are

⁷ Based on information currently in the database. Some funds may not have any expenditures in the current year.

prohibited from paying pro rata pursuant to federal requirements⁸. Bond Funds have been largely excluded, as discussed further below. Special Funds and Nongovernmental Costs Funds are generally billable, but 62 have been excluded for specified reasons: 20 of them are bond funds; 16 of them are not truly funds or State funds, but were created for technical or budgetary display purposes (e.g., county revenues to school districts, university funds outside the State Treasury); 9 have been determined by Finance as not suitable for pro rata (e.g., State School Fund, Inmate Welfare Fund); 5 have been excluded by statute (e.g., Lottery Funds); 1 is a federal fund that has been misclassified as a nongovernmental cost fund; and 11 have been excluded for reasons that are not recorded in the database. The following are areas of concern:

Bond Funds. Prior to 2002-03, when pro rata costs were distributed only to state operations, a number of bond funds with state operations expenditures were assessed. Beginning in 2002-03, when funds with local assistance expenditures were added to the pro rata assessments, and in 2003-04 when funds with capital outlay expenditures were added, more bond funds were included, and several concerns were raised. One concern was the funding source—i.e., it was questionable that pro rata should be assessed against General Obligation bond funds, since the repayments were from the General Fund. Another concern was that for some bond funds, the funds were fully allocated to projects, and projects would have to be cut back in order to pay pro rata. A third concern was voter approval, the argument being that the voters approved the funds for specific public purposes—i.e., bonds were approved for capital projects, and other funds for other purposes—not for state administration, and therefore assessing pro rata would be legally questionable.

To address these concerns, a policy decision was made to deem as nonbillable all bond funds coded as bond funds in the UCM, except for those funds that had previously been assessed pro rata prior to 2002-03. In addition, funds in other fund categories that are essentially bond funds were identified, and were assessed for their inclusion in pro rata—funds that were repaid by the General Fund or for which the funds had already been fully allocated were deemed nonbillable, and 38 were deemed billable for 2002-03.⁹ These funds have become known as "specially designated bond funds". A new annual process was instituted whereby new bond funds are reviewed by Finance staff in the Capital Outlay unit to determine if the fund should be deemed nonbillable because the bonds are repaid by the General Fund or the monies have been fully allocated to projects.

The treatment of bond funds has not been consistent. Funds categorized as bond funds received a blanket exemption, unless they had been assessed historically, and those in other fund categories were subjected to a two-prong test. The two-prong test may not have been reliable, because of the 38 bond funds deemed billable for 2002-03, only 15 have been deemed nonbillable for 2004-05. (A list of the assessed bond funds and the specially designated bond funds appears in Appendix B.)

Voter-Approved Funds. Inconsistencies also exist for voter-approved funds. New voter-approved funds are now exempted from pro rata, but historically assessed voter-approved funds are still assessed (e.g., funds created by the 1988 cigarette and tobacco tax initiative).

⁸ The federal costs of centralized administrative services are recovered through the Statewide Cost Allocation Plan (SWCAP) process.

⁹ E-mail communication from Carlos Diaz of Finance to Lisa Mangat of the Legislative Analyst's Office, March 19, 2003.

Federal Funds. As indicated in the table above, 20 of the 34 funds categorized as federal funds in the UCM were designated as billable in the pro rata system, even though federal funds are supposed to be nonbillable. During the course of this study, Finance pro rata staff reviewed these funds and found that they were improperly designated as billable funds within the pro rata system. The system was recently corrected, and the funds will be designated as nonbillable for 2004-05.

Unrecorded Reasons. For 11 excluded funds, the reasons for the exclusion are not recorded in the database. Many of these exclusions were made years ago; the documentation is in various forms and some of it may no longer exist.

Inconsistent Designations. A few other inconsistent designations were found. Lottery funds are exempted by statute, but the lottery fund for the Youth Authority has been assessed (Finance staff have acknowledged this oversight). Three funds were deemed billable for one character of appropriation, but not another—these inconsistencies need to be reviewed.

Expansion Beyond State Operations

The Supplemental Language requested that this study address how effectively the pro rata methodology reflects the level of services provided to the assessed funds. As noted in the description of the pro rata functions, health benefits for retired annuitants comprise 77 percent of the pro rata costs. Health benefits for retired annuitants is a cost associated with state operations. Other pro rata costs associated with state operations are the State Personnel Board, the Department of Personnel Administration, and functions of the State Controller dealing with employees (i.e., payroll and systems, payroll, and retirement Warrants). Altogether, these costs comprise 79 percent of the pro rata costs. The other 21 percent of the pro rata costs reflect activities that benefit or concern all of State government. There is a legitimate argument for billing pro rata costs to local assistance, capital outlay and unclassified expenditures to the extent that the activities being billed concern all of state government. However, given that the vast majority of pro rata costs concern state operations, limiting pro rata assessments to state operations appears to be a more logical argument.

As an additional note, the expansion of the pro rata system beyond state operations created a number of new issues that have not been fully resolved. One issue is the inconsistent treatment of bond funds, as noted above. Another issue is the inconsistent treatment of contributions to retirement systems, which are unclassified expenditures. For 2004-05, contributions to retirement systems are not being assessed for funds within the Public Employees Retirement System or the State Teachers Retirement System. However, funds within the Judges Retirement System are being assessed. Limiting the assessments to state operations would eliminate or help resolve these issues.

IV. PRINCIPLES AND RECOMMENDATIONS

The pro rata system has been in place for decades and its basic structure is sound. Since there are no absolute rules for a system such as pro rata, the system should be judged on its reasonableness and on the relative weight of alternative approaches based on guiding principles. Those guiding principles are as follows:

Guiding Principles for Pro Rata System

- Fair, equitable and consistent billing of departments and funds
- Maximum recovery of centralized General Fund costs

In light of these principles, the current methodology raises concerns in three areas, as discussed in the report. The following changes are recommended:

Allocation of Costs for the Legislature

Finance should develop a new method for allocating the costs of the Legislature that is more logically and meaningfully related to the activities of the Legislature than is the current methodology. The distribution pattern as for Finance-Budgets is suggested as one possibility, but there may be others that are preferable.

Designation of Nonbillable Funds

(1) Finance should update, clarify and strengthen its criteria for billable and nonbillable funds, particularly with respect to bond funds and voter-approved funds. (2) Finance should review the designation of funds in the system to ensure that the designations of billable and nonbillable are consistent across funds.

Expansion Beyond State Operations

Although limiting pro rata billings to state operations may appear more logical than billing all characters of appropriation, there would be a significant cost to the General Fund—potentially up to \$80 million. Finance should revisit the issue in the context of the total State budget situation to make sure that the pro rata methodology maintains an appropriate balance between fairness to departments and funds, and maximization of General Fund recoveries.

Appendix A: Pro Rata Functions, Workload Units and Dollars Allocated for 2004-05

Department	Workload Unit*	2002-03 Estimate	2002-03 Actual	Roll- Forward	2004-05 Estimate	Percent of Total	Total Allocated
Finance-Audit and Reviews	Hours (Direct = 29%)	\$4,142,096	\$4,914,468	\$772,372	\$5,395,967	0.5%	\$6,168,339
Finance-Budgets	Hours (Direct = 85%)	23,446,031	27,113,569	3,667,538	22,343,394	2.0%	26,010,932
Finance-CALSTARS	Expenditures	971,331	877,298	-94,033	718,093	0.1%	624,060
Finance-Tech. Oversight & Security Unit	Hours (Direct = 34%)	0	2,089,351	2,089,351	2,388,053	0.2%	4,477,404
Dept. of Information Technology	Hours	9,794,991	0	-9,794,991	0	-	-9,794,991
General Services-CA Home Page	Expenditures	2,068,396	2,745,536	677,140	0	-	677,140
General Services-State E-Mail	Expenditures	772,847	68,500	-704,347	0	-	-704,347
General Services-Network Infrastructure	Expenditures	508,462	498,964	-9,498	0	-	-9,498
Controller-Accounting	Records/Warrants	11,099,052	11,345,905	246,853	11,345,905	1.0%	11,592,758
Controller-Claim Audits	Records/Warrants	355,685	2,776,529	2,420,844	2,776,529	0.2%	5,197,373
Controller-Payroll	Records/Warrants	3,955,746	3,296,188	-659,558	3,296,188	0.3%	2,636,630
Controller-General Disbursements	Records/Warrants	979,182	3,661,880	2,682,698	3,661,800	0.3%	6,344,498
Controller-Field Audits	Hours (Direct = 91%)	3,415,027	5,008,530	1,593,503	5,008,530	0.5%	6,602,033
Controller-Retirement Warrants	Records/Warrants	252,037	217,904	-34,133	217,904	0.0%	183,771
Controller-Payroll & Systems	Records/Warrants	16,197,505	15,227,983	-969,522	15,227,983	1.4%	14,258,461
Treasurer-Investments	Interest Earned	539,278	546,317	7,039	494,645	0.0%	501,684
Treasurer-Banking	Records/Warrants	1,350,757	0	-1,350,757	1,072,022	0.1%	-278,735
Treasurer-Cash Mgt & Trust Services	Expenditures	10,269,427	5,972,575	-4,296,852	4,858,150	0.4%	561,298
State Personnel Board	Positions	7,681,476	6,467,774	-1,213,702	3,900,000	0.4%	2,686,298
Dept. of Personnel Administration	Positions	19,482,906	6,856,672	-12,626,234	5,802,859	0.5%	-6,823,375
Board of Control	Records/Warrants	941,796	757,751	-184,045	791,000	0.1%	606,955
Office of Administrative Law	Hours (Direct = 83%)	2,471,374	2,343,693	-127,681	1,864,000	0.2%	1,736,319
State Library	Expenditures	4,493,161	3,631,719	-861,442	2,723,790	0.2%	1,862,348
Health Benefits for Retired Annuitants	Expenditures-Employee Health Benefits	552,523,015	563,350,573	10,827,558	853,415,269	76.8%	864,242,827
Health & Human Services Agency	Expenditures	2,049,000	3,139,665	1,090,665	3,455,000	0.3%	4,545,665
Youth & Adult Correctional Agency	Expenditures	1,027,001	889,137	-137,864	938,000	0.1%	800,136
State & Consumer Services Agency	Expenditures	882,000	805,156	-76,844	774,000	0.1%	697,156
Business, Transportation & Housing Agency	Expenditures	0	0	0	0	-	0
Resources Agency	Expenditures	3,269,999	1,390,828	-1,879,171	0	-	-1,879,171
Labor & Workforce Development Agency	Expenditures	0	7,000	7,000	0	-	7,000
Bureau of State Audits	Hours (Direct = 80%)	9,783,112	10,920,687	1,137,575	11,756,000	1.1%	12,893,575
Legislature	Expenditures	139,286,639	141,916,004	2,629,365	147,113,700	13.2%	149,743,065
Technical Adjustments	n/a	138,675,814	0	-138,675,814	0	-	-138,675,814
Total		\$972,685,143	\$828,838,156	-\$143,846,987	\$1,111,338,781	100.0%	\$967,491,794

* For functions with hours as the workload unit, the percentage of direct hours allocated to identified departments in the 2004-05 estimate is indicated. The remaining hours are indirect and their cost is spread to all departments on the basis of total State expenditures.

Appendix B. Assessed Bond Funds and Specially Designated Bond Funds

The following lists are provided as requested in the Supplemental Report Language. The fund designations were obtained from Finance pro rata staff. Some of these funds have not actually been billed, because there have been no net expenditures from the funds.

I. Assessed Bond Funds

The following is a list of funds designated as bond funds in the Uniform Codes Manual and deemed by Finance pro rata staff to be billable in the pro rata system:

Code	Fund Name
0404	Central Valley Project Improvement Subaccount
0409	Delta Levee Rehabilitation Subaccount
0445	Feasibility Projects Subaccount
0446	Water Conservation & Groundwater Recharge Subaccount
0543	Local Projects Subaccount
0544	Sacramento Valley Water Management and Habitat Protection Subaccount
0707	California Safe Drinking Water Fund
0740	1984 State Clean Water Bond Fund
0744	1986 Water Conservation and Water Quality Bond Fund
0790	1988 Water Conservation Fund
0793	California Safe Drinking Water Fund of 1988
6001	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Fund
6003	Floodplain Mapping Subaccount
6004	Agriculture & Open Space Mapping Subaccount
6005	Flood Protection Corridor Subaccount
6007	Urban Stream Restoration Subaccount
6010	Yuba Feather Flood Protection Subaccount
6011	Arroyo Pasajero Watershed Subaccount
6014	Water and Watershed Education Subaccount
6015	River Protection Subaccount
6018	Coastal Watershed Salmon Habitat Subacct
6023	Water Conservation Account
6025	Conjunctive Use Subaccount
6026	Bay-Delta Multipurpose Management Subacct
6027	Interim Water Supply and Water Quality Infrastructure and Management Subaccount
6029	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund
6042	Pension Obligation Bond Fund

II. Specially Designated Bond Funds

The following is a list of special and nongovernmental funds deemed by Finance pro rata staff to be bond funds and billable in the pro rata system¹⁰:

Code	Fund Name
0144	Water Fund
0296	Coachella Valley Mountains Conservancy
0501	Housing Finance Fund
0502	Water Resources Development Bond Fund
0503	California National Guard Farm & Home Building Fund
0505	Affordable Student Housing Revolving Fund
0506	Central Valley Water Project Construction Fund
0521*	Rural Economic Development Infrastructure Revolving Fund
0523	East Bay State Building Authority Fund
0524	Los Angeles State Building Authority
0534	New Prison Construction Revenue Fund
0537	Capitol Area Development Fund
0538	San Francisco State Building Fund
0539	Oakland State Building Authority
0541	San Bernadino State Building Authority
0561	Riverside County Public Financing Authority
0565	State Coastal Conservancy Fund
0592	Veterans Farm & Home Building Fund of 1943
0780	Psychiatric Technicians Account
0784	Student Loan Operating Fund
0867	Farmland Conservancy Program Fund

* Renumbered from 0699

¹⁰ Of the original list of 38 funds, 15 are now excluded bond funds, and 2 have been abolished (funds 0515 and 0817).